

Bodycote plc
Full year results for year ended 31 December 2022

‘Strong growth; good prospects’

Financial summary

	2022		2021		% Change Constant Currency	% Change
Revenue	£743.6	m	£615.8	m	17.3%	20.8%
Headline operating profit ¹	£112.2	m	£94.8	m	19%	18%
Headline operating margin ¹	15.1	%	15.4	%		
Free cash flow ¹	£84.0	m	£105.0	m		-20%
Basic headline earnings per share ^{1,2}	42.7	p	35.8	p		19%
Ordinary dividend per share	21.3	p	20.0	p		
Return on capital employed ¹	13.3	%	12.0	%		

Additional statutory measures

	2022		2021	
Operating profit	£102.0	m	£83.8	m
Profit after tax	£74.3	m	£60.0	m
Net cash from operating activities	£142.9	m	£144.3	m
Basic earnings per share	38.6	p	31.2	p

Highlights

Results

- Revenues up 20.8% to £743.6m (17.3% at constant currency)
- 10.1% underlying revenue growth³ excluding energy related surcharges of £44³m
- Headline operating profit up 19%³ to £112.2m
- Closing net debt¹ of £33.4m (2021: £51.9m)
- Final ordinary dividend 14.9p, total year 21.3p (2021: 20.0p)

Key Achievements

- Permanent price increases fully recovered labour and general cost inflation
- Nil margin surcharges completely recovered energy cost inflation in H2 (shortfall of £5m in H1)
- Headline operating margin of 15.1%; 16.1% excluding the dilution effect of energy surcharges
- Good momentum in higher growth markets. Growth³ excluding surcharges well above background demand:
 - Specialist Technologies up 14%
 - Emerging Markets up 16%
 - Civil aerospace up 19%

Commenting, Stephen Harris, Group Chief Executive said:

“Bodycote’s growth in 2022 was well above the background growth in our served markets, augmented by investment over the last several years in the higher growth markets of Specialist Technologies, Emerging Markets, Civil Aerospace and electric vehicles, which now represent more than half of the Group’s revenue and 62% of headline operating profit.

A key achievement has been the recovery of energy cost increases through surcharges and the full recovery of other inflation through permanent price increases.

Headline EPS increased by 19%, reflecting the strong growth and the focus on operational efficiency.

While there are near term macroeconomic uncertainties, we expect underlying volume to continue to grow ahead of the background markets, and margins are expected to expand as surcharges moderate.

Beyond 2023, we expect robust growth, leading to further margin expansion. Civil Aerospace will benefit from higher OEM build rates and increasing airline flying hours, and our investments in Emerging Markets and Specialist Technologies will drive higher growth in these areas.

The Board remains confident in the Group’s prospects for continued profitable growth.”

- 1 The headline performance measures represent the statutory results excluding certain items. Net debt excludes lease liabilities. These are deemed alternative performance measures (APMs) under the European Securities and Markets Authority guidelines. Please refer to the APMs section of this full-year results release below for a reconciliation to the nearest IFRS equivalent.
- 2 A detailed earnings per share reconciliation is provided in note 6 to the consolidated financial statements below.
- 3 At constant currency.

END

Full Year Results Presentation

Bodycote will be presenting our results via webcast at **09.00am UK GMT on 17 March 2023**. Please find the following instructions to connect to the video and audio:

Webcast URL:

<https://www.bodycote.com/webcast2023>

For dial-in only:

Participant dial-in numbers are:

United Kingdom: 0800 640 6441

UK local: 0203 936 2999

All other locations: +44 203 936 2999

Participant Access Code: 183682

This presentation will be available at www.bodycote.com

For further information, please contact:

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2022 Results Press Release
Friday, 17 March 2023
Circulation: RNS formatted

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Full Year Commentary

Overview

Group revenue increased 20.8% to £743.6m in 2022 (17.3% at constant currency). Given the high volatility of energy prices during the year, Bodycote took the step to pass through energy price increases at cost to our customers in the form of nil margin surcharges. After some delay at the start of 2022 this approach offset all of the energy price increases in the second half and boosted the Group's full year revenue by 7%. Underlying revenue growth was more than 10%, driven by our expansionary capital investment in recent years, reinvigorated sales and marketing efforts and favourable momentum in our target markets. This resulted in constant currency revenue growth (excluding surcharges) of 14% in Specialist Technologies, 16% in Emerging Markets, and 19% in civil aerospace.

Headline operating profit increased 18% to £112.2m from £94.8m in 2021. Headline operating margin was 15.1% (2021: 15.4%). This small decline in reported margin was due to the dilutive impact of the energy surcharges. Adjusting for these, the underlying margin increased to 16.1% for the year.

Statutory operating profit increased from £83.8m to £102.0m.

The Group delivered free cash flow of £84.0m (2021: £105.0m), after a net working capital outflow of £25m, which was entirely due to higher trade receivables, driven by the high level of energy surcharges. The balance sheet remains healthy, with closing net debt excluding lease liabilities of £33.4m (2021: £51.9m).

Basic headline earnings per share for the Group increased by 19% to 42.7p (2021: 35.8p). Basic earnings per share were 38.6p (2021: 31.2p), reflecting the increase in statutory operating profit.

The following commentary reflects constant currency growth rates versus the comparable period last year, unless stated otherwise.

Business Focus

The Group's strategy is to focus on investing in and growing key areas of our business while improving the operating efficiency and quality of the remainder of the business. Targeted higher growth areas are the Specialist Technologies' business, the Emerging Markets' business, and the secular growth markets of civil aerospace and electric vehicles. These higher growth markets now represent more than half of the Group's revenues and 62% of the Group's headline operating profit.

Specialist Technologies are differentiated, early stage processes with high margins, large market opportunities and good growth prospects. In each of these technologies, Bodycote is either the clear market leader or one of the top players among few competitors, and they address multiple market sectors. We continue to invest in these technologies organically, in terms of both capital and people, as well as through acquisitions. Specialist Technologies' revenues grew 18% in the year to £228m, with good growth momentum. The small HIP business acquired in late 2021 accounted for 4% of this growth. The impact of energy surcharges on these revenues was only 4%, as these are lower energy use technologies, and also have the preponderance of the long-term agreements which defer price increases, typically by a year. Highlighting the strategic appeal of Specialist Technologies, organic volume growth again outperformed the classical heat treatment business.

Emerging Markets revenues (comprising Eastern Europe, China and Mexico) grew 24% to £93m (13% of Group revenues). This strong result was achieved despite virtually no growth in our Chinese business as a result of pandemic-related lockdowns. General Industrial revenue growth in these markets was strong once again, at 30%, and now represents more than a third of the Emerging Markets' overall turnover.

Investment in our Specialist Technologies and Emerging Markets businesses in the year included investments in North America in our HIP business, and additional capacity in our S³P and CiD businesses. We are also investing in new capacity in Eastern Europe to support electric vehicle production, as well as a new greenfield facility in China. We will break ground on another S³P facility to support further market expansion across Western Europe.

Market Sectors

Aerospace & Defence revenues were 18% higher than the prior year, driven by strong growth in civil aerospace revenues of 25%. Underlying civil aerospace growth excluding surcharges was 19%. Aircraft production, narrow body in particular, increased with 516 of the A320 family and 387 Boeing 737 Max aircraft produced in 2022 versus 483 and 260 respectively in 2021. Airbus has announced that they will ramp up production of A320s to 900 per annum by 2026, while Boeing plans to increase production of the 737 to 600 per annum in the same time frame. We have secured multiple new contracts to support the A320 neo programme. Moreover, according to IATA Revenue Passenger Kilometres are forecast to grow by more than 20% in 2023 as air travel in China recovers. This will result in increased after-market business.

Automotive revenues increased 7% in the year, to £184m. This increase in revenues was entirely accounted for by the impact of energy surcharges to recover energy cost inflation. Underlying revenue growth was slightly negative at -1%. Automotive sector production continued to be hampered by supply chain issues, and while these problems are now easing, the automotive OEMs appear to be reticent to ramp up production too much to meet the pent-up demand as a result of the current macroeconomic uncertainty. On the electric vehicle side, we are seeing considerable quotation activity with some significant long-term contracts signed. While electric vehicle related revenues are small today, this business is set to grow well as production ramps up over the coming years.

General Industrial (including energy) revenues increased 23% to £373m, with robust growth through the year in most market segments and across key geographies. Excluding surcharges, underlying growth was 14%, which was well above background market growth.

Sustainability

Managing energy and reducing our impact on the planet has long been part of our corporate culture. Thermal processing, including heat treatment, enables products to be lighter, more efficient, and longer lasting. Our inherently higher furnace utilisation and energy efficiency compared to manufacturers' in-house heat treatment facilities, helps drive our customers to outsource to Bodycote, in turn lowering the overall carbon footprint for industry (for further details please refer to the case study below). Moreover, our Specialist Technologies are lower emissions technologies. Consequently, encouraging accelerated conversion to these technologies also plays a role in reducing overall emissions. This increased attention and our commitment to SBTi is an opportunity to accelerate our efforts to combat climate change, while at the same time helping to drive growth.

I am pleased to report that Bodycote has set carbon reduction targets in conjunction with the Science Based Targets initiative (SBTi), committing to an absolute reduction of 28% in carbon emissions by 2030. In 2022 our total CO₂e emissions reduced by a further 6%. We have a structured programme of investment initiatives in carbon reduction programmes across the business and the pace of investment in 2023 will further accelerate. All of these carbon reduction initiatives also yield a financial payback. In total the carbon reduction programmes improve our returns on investment and lower our cost of energy, driving higher margins. Our reinvigorated sales and marketing campaigns aimed at reducing customers' carbon emissions (known as *Scope 4 avoided carbon*) help drive customers' outsourcing to us which in turn drives growth, higher returns on investment, and higher margins. All of these factors are major positives for Bodycote and

become more of a feature with higher energy prices and as more companies become cognisant of the need to reduce carbon emissions.

Cost inflation management

Following on from last year, the Group saw inflationary pressure build through the year in key geographies, most notably in energy costs, which peaked during the second half. These have contributed to general inflation rates not seen for more than a generation.

Cost inflation principally impacts us through increases in energy prices (historically c.10% of revenues) and labour costs (c.40% of revenues). In this volatile inflationary environment, energy cost increases have been passed on through nil margin energy surcharges or contractual indexation in long-term agreements (LTAs). In contrast, labour inflation is addressed by price increases, including through contractual indexation. While we are now adjusting the energy surcharges monthly in most markets, price increases are typically annual and permanent, reflecting the frequency of pay awards in most of our markets. Contractual indexation normally lags cost impact by 6 to 12 months, but multiple customers have already accepted exceptional price increases outside of the contract terms.

The implementation of energy surcharges inevitably involved an initial shortfall which cost the Group £5m in the first half of the year. Despite energy costs peaking over the summer, energy cost inflation during the second half was fully recovered. Price increases have fully recovered the remainder of general inflation including wage increases and we expect this to continue.

Summary and outlook

Bodycote's growth in 2022 was well above the background growth in our served markets, augmented by investment over the last several years in the higher growth markets of Specialist Technologies, Emerging Markets, Civil Aerospace and electric vehicles, which now represent more than half of the Group's revenue and 62% of headline operating profit.

A key achievement has been the recovery of energy cost increases through surcharges and the full recovery of other inflation through permanent price increases.

Headline EPS increased by 19%, reflecting the strong growth and the focus on operational efficiency.

While there are near term macroeconomic uncertainties, we expect underlying volume to continue to grow ahead of the background markets, and margins are expected to expand as surcharges moderate.

Beyond 2023, we expect robust growth, leading to further margin expansion. Civil Aerospace will benefit from higher OEM build rates and increasing airline flying hours, and our investments in Emerging Markets and Specialist Technologies will drive higher growth in these areas.

The Board remains confident in the Group's prospects for continued profitable growth.

Business review

Bodycote has more than 165 facilities around the world which are organised into two customer-focused businesses: the ADE business and the AGI business.

Our ADE business focuses on aerospace, defence, and energy customers, who tend to think and operate globally. Our AGI business focuses on automotive and general industrial customers. These include many multinational companies that tend to operate on a regionally-focused basis and numerous medium-sized and smaller businesses, all of which are important to Bodycote. Much of the AGI business is locally oriented.

Strategically we have focused on building customer relationships to enable our participation in long-term programmes. Not only do we have a competitive advantage as a result of our scale and capabilities, but our global reach allows customers to work with us on multiple projects simultaneously, making us a valued business partner.

The ADE business

Bodycote services all the major manufacturers in the aerospace industry as well as a large portion of their supply chains.

Within ADE, we have more than 55 facilities around the world.

The following review reflects constant currency growth rates unless stated otherwise.

Revenue in 2022 was £312.7m, an increase of 20% (27% at actual rates). On an organic basis, revenues increased 17% (24% at actual rates), with strong growth in Civil Aerospace and General Industrial (including energy) revenues.

Headline operating profit increased to £50.8m (2021: £44.2m), and headline operating margin declined to 16.2% (2021: 18.0%), reflecting the dilution from energy surcharges, as well as temporary dilution from the acquisition of the small HIP business in December 2021. Statutory operating profit increased to £44.0m (2021: £32.8m).

Expansionary capital expenditure was £8.0m, with significant investment in capacity growth for the North American Specialist Technology business.

Return on capital employed increased to 11.9% (2021: 10.8%) as a result of the improved profitability.

The AGI business

Bodycote has a long and successful history of servicing its wide-ranging customer base.

Our extensive network of more than 100 AGI facilities enables the business to offer customers the broadest range of capability and security of supply. Each of our AGI facilities works with their customers to respond with the expertise and appropriate service level required, no matter the size of the customer's demand.

The following review reflects constant currency growth rates unless stated otherwise.

Revenue was £430.9m, an increase of 15% on the prior year (16% at actual rates) entirely reflecting the impact of price increases and energy surcharges to offset general and energy cost inflation.

Headline operating profit was £80.8m (2021: £69.5m), and headline operating margin was stable at 18.7% (2021: 18.8%), despite the dilution from energy surcharges. Statutory operating profit increased to £78.2m (2021: £65.3m).

We spent £12.8m on expansionary capital expenditure, with ongoing expansion in Emerging Markets particularly in Eastern Europe. Work has also begun on a new facility in China.

Return on capital employed increased to 18.2% (2021: 15.9%), mainly reflecting the increased profitability.

Financial overview

	2022 £m	2021 £m
Revenue	743.6	615.8
Headline operating profit	112.2	94.8
Amortisation of acquired intangible assets	(9.3)	(10.3)
Acquisition costs	(0.9)	(0.7)
Exceptional items	-	-
Operating profit	102.0	83.8
Net finance charge	(6.7)	(6.3)
Profit before taxation	95.3	77.5
Taxation charge	(21.0)	(17.5)
Profit for the year	74.3	60.0

Group revenue was £743.6m, representing an increase of 20.8% at actual exchange rates, and 17.3% at constant currency.

Headline operating profit for the year increased by 18.4% to £112.2m (2021: £94.8m). The Group successfully passed on inflationary impacts to its customers during the year through price increases and energy surcharges. Consequently, with these feeding through into higher revenues, headline operating margin of 15.1% experienced a small decline compared with the prior year (2021: 15.4%). Statutory operating profit increased to £102.0m (2021: £83.8m), reflecting the increased headline operating profit.

Finance charge

The net finance charge was £6.7m (2021: £6.3m) analysed in the table below.

	2022 £m	2021 £m
Interest on loans and bank overdrafts	(2.3)	(1.3)
Interest charges	(1.8)	(2.0)
Financing and bank charges	(3.0)	(3.3)
Total finance charge	(7.1)	(6.6)
Interest received	0.4	0.3
Net finance charge	(6.7)	(6.3)

As at 31 December 2022, the Group's £250.9m Revolving Credit Facility was drawn by £69.6m (2021: £90.3m) leaving headroom of £181.3m (2021: £160.6m). The facility has a remaining life of 4.4 years.

Profit before taxation

	2022 £m	2021 £m
Headline profit before taxation	105.5	88.5
Amortisation of acquired intangibles	(9.3)	(10.3)
Acquisition costs	(0.9)	(0.7)
Exceptional items	-	-
Profit before taxation	95.3	77.5

The statutory profit before taxation in the year increased to £95.3m (2021: £77.5m) while headline profit before tax increased to £105.5m (2021: £88.5m).

Taxation

The tax charge for the year was £21.0m (2021: £17.5m). The headline tax rate for the Group was 22.3% (2021: 22.3%), being stated before accounting for amortisation of acquired intangibles, acquisition costs and exceptional items. This is in line with guidance given to the market during the year. The Group's overall tax

rate reflects the blended average of the tax rates in the jurisdictions around the world in which the Group trades and generates profit.

The effective statutory tax rate was 22.1% (2021: 22.6%). Provisions of £28.1m (2021: £24.0m) are carried in respect of potential future additional tax assessments related to 'open' historical tax years. Refer to note 4 of the consolidated financial statements below for more information.

The OECD Pillar II proposals for a global minimum tax rate are expected to be applicable from 1 January 2024. The impact of the proposed changes on the Group is currently under review.

Earnings per share

Basic headline earnings per share rose 19% to 42.7p (2021: 35.8p) as a result of the higher headline operating profit. Basic earnings per share for the year increased to 38.6p (2021: 31.2p).

	2022 £m	2021 £m
Profit before taxation	95.3	77.5
Taxation charge	(21.0)	(17.5)
Profit for the year	74.3	60.0
Basic headline EPS	42.7p	35.8p
Basic EPS	38.6p	31.2p

Return on capital employed

Return on capital employed rose in the year to 13.3% from 12.0% in 2021. The increase mainly reflects the improvement in the Group's headline operating profit. The Group continues to exert strong financial discipline over capital expenditure projects in order to target strong returns.

Cash flow

	2022 £m	2021 £m
Headline operating profit	112.2	94.8
Depreciation and amortisation	74.9	73.4
Other, including impairment and profit on disposal of PPE	3.0	0.3
Headline EBITDA¹	190.1	168.5
Net maintenance capital expenditure	(52.2)	(43.1)
Net working capital movement	(25.3)	(3.4)
Headline operating cash flow	112.6	122.0
Restructuring	(7.4)	(2.3)
Financing costs, net	(5.8)	(5.2)
Tax	(15.4)	(9.5)
Free cash flow	84.0	105.0
Expansionary capital expenditure	(22.1)	(15.6)
Ordinary dividend	(38.5)	(49.0)
Acquisition spend	(0.9)	(65.4)
Own shares purchased less SBP and others	1.7	4.7
Increase/(reduction) in net cash	24.2	(20.3)
Opening net debt	(116.4)	(98.1)
Foreign exchange movements	(7.2)	2.0
Closing net debt	(99.4)	(116.4)
IFRS 16 lease liabilities	66.0	64.5
Net debt excluding lease liabilities	(33.4)	(51.9)

1. Refer to the alternative performance measures (APMs) section below for a reconciliation of Operating Profit to Headline EBITDA.

Net debt (excluding lease liabilities) reduced by £18.5m to £33.4m after the payment of £38.5m of ordinary dividends during the year. The Group's headline operating cash flow fell to £112.6m (2021: £122.0m),

primarily as a result of higher working capital from increased trade receivables from the energy surcharges and price increases. Nonetheless, this still represents a healthy headline operating cash flow conversion of 100% (2021: 129%). The statutory measure of net cash from operating activities fell to £142.9m (2021: £144.3m). Free cash flow was also impacted by the higher level of working capital, but remained strong at £84.0m (2021: £105.0m), with free cash flow conversion of 75% (2021: 111%). Net debt (including lease liabilities) was £99.4m (2021: £116.4m), with well over 80% of the Group's outstanding lease liabilities relating to operational property leases.

Expansionary capital expenditure and acquisitions

The Group invested £22.1m (2021: £15.6m) in expansionary projects, mainly related to the completion of a new AGI facility in North America and ongoing expansion activities in our North American HIP business as well as further investment in China. The new North American AGI plant has facilitated some of the recent restructuring activities undertaken, which, in turn, have improved the overall quality and offering of our operations.

The Group remains committed to invest in maintaining its assets to the highest standards of quality and safety.

Dividend and dividend policy

The Group aims to pay ordinary dividends so that dividend cover will be at or above 2.0 times earnings on a 'normalised' multi-year basis. The Board may also recommend payment of a supplemental distribution to shareholders. The amount of any supplemental distribution will be assessed in light of the cash position of the Group, along with funding requirements for both organic growth and acquisitions.

In line with this policy, the Board has recommended a final ordinary dividend of 14.9p (2021: 13.8p), bringing the total ordinary dividend to 21.3p (2021: 20.0p). The interim dividend of 6.4p, approved by the Board on 27 July 2022, was paid on 4 November 2022 to shareholders on the register at the close of business on 7 October 2022. The final ordinary dividend will be paid on 2 June 2023 to shareholders on the register at the close of business on 21 April 2023.

Borrowing facilities

The Group is financed by a mix of cash flows from operations, short-term borrowings, and leases. The Group's funding policy aims to ensure continuity of financing at a reasonable cost, based on committed and uncommitted facilities and loans to be procured from several sources over a spread of maturities. The Group continues to have access to committed facilities at competitive rates and therefore currently deems this to be the most effective means of long-term funding. At 31 December 2022, the facility was drawn as follows:

Facility	Expiry date	Facility utilisation £m	Facility headroom £m	Facility £m
£250.9m Revolving Credit	27 May 2027	250.9	69.6	181.3

During the year, Group extended its £250.9m Revolving Credit Facility by one year and this will now expire in May 2027. The transition from IBOR has been successfully completed with no material impact on the Group.

Alternative performance measures (APMs)

Bodycote uses alternative performance measures such as headline operating profit, headline earnings per share, headline profit before taxation, headline operating cash flow, headline operating cash conversion, free cash flow, free cash flow conversion, net debt and return on capital employed together with current measures restated at constant currency. The Directors believe that these assist users of the financial statements to gain a clearer understanding of the trading performance of the business, allowing the impact of restructuring and

reorganisation activities and amortisation of acquired intangible assets to be identified separately. These alternative performance measures can be found in the APMs section below.

Going concern

In determining the basis of preparation for the consolidated financial statements, the Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The financial overview above includes a summary of the Group's financial position, cash flows, liquidity position and borrowings.

The current and plausible impact of macro-economic factors, including the war in Ukraine, energy and price inflation, the ongoing COVID-19 impacts and global supply chain impacts on the Group's activities, performance and revenue, in addition to other factors and risks, have been considered by the Directors in preparing its going concern assessment. The Group has modelled a base case, which reflects the Directors' current expectations of future trading in addition to potential severe but plausible impacts on revenues, profits and cash flows in a downside scenario.

Management's base case scenario is built upon the budgeting and forecasting processes for 2023 and the period up to June 2024. This model shows an improvement in performance in both revenue and profits compared to 2022, albeit with operating profit remaining below 2019 levels. The Group's record of cash conversion was used to estimate the cash generation and level of net debt over that period. The severe but plausible downside scenario assumes a significant decline in revenues of around 18% below the base case modelled through to the end of June 2024.

In performing the scenarios, the assessment has considered both liquidity and compliance with the Group's covenants. The key covenants attached to the Group's Revolving Credit Facility relate to financial gearing (net debt to EBITDA) and interest cover, which are measured on a pre-IFRS 16 basis. The maximum financial gearing ratio permitted under the covenants is 3.0x (with a one-time acquisition spike at 3.5x) and the minimum interest cover ratio permitted is 4.0x. In both the base case and the severe but plausible downside scenario modelled, the Group continues to maintain sufficient liquidity and meet its gearing and interest cover covenants under the Revolving Credit Facility with substantial headroom.

Management also performed a reverse stress test. This indicated that 2023 revenues would need to decline by over of 30% compared to 2022 levels and with no growth in 2024 before the Group's loan covenants were breached at the June 2024 test date. In this scenario, minimum liquidity was over £80m throughout the entire period. This scenario did not include the benefit of any mitigating actions management would undertake, including among other actions, the restructuring of the cost base, a reduction in capital expenditure and a reduction of dividends.

The Group meets its working capital requirements through a combination of committed and uncommitted facilities and overdrafts. For the purposes of the going concern assessment, the Directors have only taken into account the capacity under existing committed facilities, being predominantly the Group's Revolving Credit Facility.

The Group has access to a £250.9m Revolving Credit Facility maturing in May 2027. The Group's committed facilities at 31 December 2022 totalled £255.4m while uncommitted facilities totalled £46.6m. At 31 December 2022, the Group's Revolving Credit Facility had drawings of £69.6m (2021: £90.3m) and the Group's net debt was £33.4m (2021: £51.9m). The liquidity headroom was £222.0m at 31 December 2022 (2021: £204.3m), excluding uncommitted facilities.

Following this assessment, the Directors have formed a judgement, at the time of approving the financial statements, that there are no material uncertainties that cast significant doubt on the Group's going concern status and that it is a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months from the approval date of the consolidated financial statements. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Climate change

As the world's leading provider of thermal processing services, Bodycote plays an essential role in minimising climate change. The services Bodycote supplies to its customers improve the lifespan of products and enable a reduction in the environmental footprint of their components. In addition, by efficiently aggregating our many thousands of customers' thermal processing requirements, Bodycote significantly reduces the overall required energy consumed compared with the energy that would be consumed if each customer treated their own products. In this regard, Bodycote can be considered an enabler of reduced global industrial carbon emissions.

Bodycote's target for near-term carbon reduction is approved by the Science Based Target initiative (SBTi). Bodycote commits to reduce absolute Scope 1 and Scope 2 GHG emissions 28% by 2030 from a 2019 base year. The SBTi is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the Worldwide Fund for Nature (WWF). The SBTi defines and promotes best practices in science-based target setting and independently assesses companies' targets.

Carbon footprint

Bodycote offers some of the most energy-efficient processes available on the market, optimising the process to ensure full capacity utilisation, thereby providing maximum benefit to our customers, the Group and the environment. Across the organisation, the Executive Committee oversees a significant capital investment programme targeting carbon reduction initiatives.

Bodycote's total CO₂e emission data is based on Scope 1 and Scope 2, and data relating to this has been calculated to include the most recent emission factors from the International Energy Agency (IEA) and DEFRA. Scope 1 emissions are direct emissions resulting from fuel usage and the operation of facilities. Scope 2 emissions are indirect energy emissions from purchased electricity, heat, steam, or cooling for own use. Bodycote calculated both location- and market-based Scope 2 emissions in line with the GHG protocol. Bodycote measures Scope 3 emissions in line with the GHG Protocol but does not report them as deemed to be immaterial.

For Scope 1, the Group collects natural gas, LPG, fuel oils, methanol and CO₂ consumption information from each facility every month; in addition, refrigerant gases and transportation fuel are collated on an annual basis. For location-based Scope 2, the Group collects electricity consumption data from each facility every month, the most recent IEA and DEFRA conversion factors are then applied to calculate the total CO₂ tonnage produced. The market-based Scope 2 emissions are calculated using the same electricity consumption data. Where supplier-specific emissions factors are not available, the residual mix is applied; where the residual mix is not available, the IEA country mix is applied. This methodology is in line with the GHG protocol market-based approach. Once the Group has applied the most recently published emission factors to calculate the total tonnage of CO₂e produced, it is then combined with the geographical sales for the year to calculate the normalised¹ tCO₂e per £m of sales.

In 2022, Bodycote's total carbon emissions (ktCO₂e) reduced by 6% (location-based) compared with the previous year, notwithstanding our 21% growth in sales. The total CO₂e emissions per £m sales normalised¹ in 2022 were 356.2 Te (2021: normalised¹ 414.8 Te), a 14% reduction.

¹ Normalised statistics restate sales figures using closing exchange rates at 31 December 2022.

Helping our customers reduce emissions – Scope 4 (Avoided Emissions)

Case study: a real world example

By collaborating with one of our Scandinavian customers, Bodycote identified the opportunity to reduce their overall carbon footprint, outsourcing their work to us. Our process engineers worked with the customer to pinpoint the major contributors to their carbon footprint for the specified components. Through many years of monitoring and analysing consumption in relation to processes and customer specifications, Bodycote engineers have gained considerable expertise in reducing CO₂ emissions. Working with this customer to understand how they managed their in-house thermal processing, Bodycote engineers were able to propose a complete process optimisation.

For most components, the largest contributor to the carbon footprint is the energy used to power the production line, including the energy input to the components themselves; this can range from 15% to 80% of the overall carbon footprint. Through optimisations and load management, specifically as an aggregator of different customers' work, our processes typically run with higher throughput and, therefore, less wasted energy and less hot idle time. In this specific case, energy input to the production line contributed approximately 25% to the emissions of the overall component carbon footprint. Optimising the energy input was addressed in the load management and utilisation of the production line for this customer.

Bodycote engineers are familiar with many customers who run inefficiently by oversupplying process gases. Bodycote recognises that a great deal of leverage can be applied to optimise the CO₂ emissions caused by process gases. Due to these inefficiencies, process gas can represent up to 70% of the carbon footprint. For this specific case, it represented 48%. By studying the needs of this customer's components, Bodycote reduced CO₂ emissions from excess process gas by a third.

Based on the Bodycote optimisation model, we are able to reduce the CO₂ footprint for consumables and equipment as well. Our experience and depth of knowledge about our customers allowed us to maximise our offering to avoid unnecessary energy input, process gas volumes, and wasted energy during hot idle. The cumulative process optimisations, whilst maintaining all specifications, enabled Bodycote to reduce the carbon footprint of this customer's components by over 45%.

Avoiding emissions is imperative to reduce the impact on climate change. Thermal processing is used by virtually every company that uses metal in its products, and often this is a company's most significant contribution to carbon emissions. Bodycote has the inherent capability through aggregation of different customers' work, as well as applying our expertise and know-how to dramatically reduce carbon emissions from thermal processing work of companies manufacturing items that use metal. As a result, Bodycote has a major role in avoiding emissions and reducing industry's negative impact on the climate.

Principal risks and uncertainties

The Board is responsible for the Group's risk management and determining the Group's risk appetite. An update is provided to the Executive and Audit Committees on the Group's risk activities at every meeting and a comprehensive review of the Group's business-critical and emerging risks is presented to the Board in June and in December. The Board concluded that an ongoing process of identifying, evaluating and managing the Group's significant risks has been in place throughout 2022 and a robust assessment of the principal and emerging risks had been undertaken.

Emerging risks

The Board has highlighted certain wider effects of climate change on Bodycote's business as a key emerging risk. The acceleration in the transition to electric vehicles (EV) away from internal combustion engines, whilst the mix of components in EVs are different than for internal combustion engines, the type and number of components that Bodycote treats remain largely unchanged. Furthermore, Bodycote is very well positioned to service these EV components and has started to position itself as the supplier of choice to EV manufacturers and OEM's.

Continued environmental activism, as well as increased focus from both regulators and the investment community, has started to influence consumers to reduce their carbon footprints. There is the potential that this could start to impact some of the sectors Bodycote operate in, such as civil aerospace.

Greater geopolitical risk, with the war in Ukraine, increased international tensions, more general in tariffs and other barriers to international trade. If countries pursue aggressive trade barriers that reduce the movement of goods, this could result in customers shortening their supply chains and moving these closer to their main production locations. Bodycote sites tend to be located in close proximity to our customers' production locations.

The COVID-19 pandemic, as well as the potential for more pandemics in the future, including the long-term effects for which the full impacts are still not known. The pervasive impact of COVID-19 on the Group has been reflected throughout the identified risks.

Market and customer risks

Bodycote's presence in 22 countries servicing more than 40,000 customers across a wide variety of end-markets acts as a natural hedge to neutralise localised economic volatility and component life cycles.

The principal risks in this area are:

- General macroeconomic trends, the economic environment and the continuing impact of COVID-19
- The entry of competitors into one or more of the Group's Specialist Technologies
- Inflation Costs

Corporate and community risk

Bodycote is committed to providing a safe work environment for its employees and each facility has responded proactively and positively to COVID-19 during 2022. There are extensive Group-wide health and safety policies that are subject to regular review and auditing. The principal risk in this area is the safety and health of our employees.

Environment

Bodycote recognises the importance of considering climate risks and opportunities in our business decisions. Our climate change risk is managed closely by Group management reporting to the Chief Executive who provides regular reports to the Board. We also acknowledge the role of the Task Force on Climate-related Financial Disclosures (TCFD) in supporting the transition to a low-carbon economy. Our disclosures which will be contained within the Sustainability report in the 2022 Annual Report demonstrate how we are managing our climate impact and how the Group is evolving in response to the risks and opportunities arising. Given the importance of the continued effects of climate change on the Group's emerging risk profile and the wider impacts of both physical and transitional risk, in 2021, the Group has refocused its previous Environmental, Social and Governance risk to Climate Change risk.

Our principal risks in this area are the actual or perceived impact on the environment by Bodycote operations, that we do not adapt competitively to the requirement for lower emissions, and that we do not anticipate the impact of climate change to ensure that the Group's operations are sustainable.

Operational risks

Bodycote has a global network of more than 165 facilities. Each facility has stringent operational quality systems in place managed by qualified staff. These facilities are however subject to a number of operational risks:

- Deterioration in quality or service levels
- Not treating parts in accordance with the confirmed contract specifications
- The loss of key accreditations such as Nadcap for aerospace and defence work and IATF 6949 for automotive
- Disruption due to man-made or natural hazards
- Machinery downtime
- Information technology and cybersecurity

Regulatory risk

Bodycote has a strong set of core values supported by the Group Code of Conduct, Group policies, alongside training and awareness programmes. The principal risk in this area is the failure to comply with key local and international legislation.

Finance risks

The Group's multinational operations expose it to a variety of financial risks. Financial risk management policies are set by the Board and the Group's financial risk management was reviewed during the year by the Audit Committee. In the course of its business, the Group is exposed to these financial risks:

- Foreign currency
- Interest rate
- Liquidity
- Credit risk

The principal risks and uncertainties faced by the Group are set out in detail in the 2022 Annual Report.

Directors' responsibility statement

This responsibility statement has been prepared in connection with the Group consolidated financial statements, extracts of which are included within this announcement.

The Directors confirm that to the best of their knowledge:

- The consolidated financial statements included in this document are derived from the audited consolidated financial statements of the Group, prepared in accordance with UK-adopted international accounting standards (they do not contain sufficient information to comply with IFRS);
- The Group's consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position, cash flows and profit of the Group;
- There have been no significant individual related party transactions during the year; and
- There have been no significant changes in the Group's related party relationships from that reported in the half-yearly results for the six months ended 30 June 2022.

The Group's consolidated financial statements, and related notes, including this responsibility statement, were approved by the Board and authorised for issue on 17 March 2023 and were signed on their behalf by:

By order of the Board,

Director
S.C. Harris

Director
D. Yates

Audited financial information

The consolidated financial statements and notes 1 to 10 for the year ended 31 December 2022 included below are derived from the Group's consolidated financial statements which have been audited by PricewaterhouseCoopers LLP. The unmodified audit report is available for inspection at the Group's registered office.

Consolidated income statement

For the year ended 31 December 2022

	Note	2022 £m	2021 ¹ £m
Revenue	1	743.6	615.8
Cost of sales and overheads excluding exceptional items ¹	2	(646.2)	(535.8)
Other operating income excluding exceptional items ¹	2	9.2	3.8
Other operating expenses excluding exceptional items ¹	2	(4.5)	(1.2)
Net impairment (losses)/gains on financial assets		(0.1)	1.2
Operating profit prior to exceptional items	1,2	102.0	83.8
Exceptional items	3	-	-
Operating profit	2	102.0	83.8
Finance income		0.4	0.3
Finance charge		(7.1)	(6.6)
Profit before taxation		95.3	77.5
Taxation charge	4	(21.0)	(17.5)
Profit for the year		74.3	60.0
Attributable to:			
Equity holders of the Parent		73.7	59.5
Non-controlling interests		0.6	0.5
		74.3	60.0
Earnings per share	6		
		Pence	Pence
Basic		38.6	31.2
Diluted		38.5	31.2

1 The consolidated income statement has been represented to present the gross balances for other operating income and other operating expenses as separate line items. These balances were not material in the prior year and were presented within cost of sales and overheads excluding exceptional items.

All activities have arisen from continuing operations. Total cost of sales and overheads, other operating income and other operating expenses including exceptional items are £641.5m (2021: £533.2m).

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	2022 £m	2021 £m
Profit for the year	74.3	60.0
Items that will not be reclassified to profit or loss:		
Actuarial gains on defined benefit pension schemes	5.8	1.7
Tax on items that will not be reclassified	(0.2)	0.1
Total items that will not be reclassified to profit or loss	5.6	1.8
Items that may be reclassified subsequently to profit or loss:		
Exchange gains/(losses) on translation of overseas operations	57.2	(14.8)
Movements on hedges of net investments	(3.1)	0.5
Movements on cash flow hedges	(0.3)	0.5
Total items that may be reclassified subsequently to profit or loss	53.8	(13.8)
Other comprehensive income/(expense) for the year	59.4	(12.0)
Total comprehensive income for the year	133.7	48.0
Attributable to:		
Equity holders of the parent	133.3	48.2
Non-controlling interests	0.4	(0.2)
	133.7	48.0

Consolidated balance sheet

As at 31 December 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill		227.8	213.9
Other intangible assets		116.9	108.1
Property, plant and equipment		516.3	489.3
Right-of-use assets		59.6	57.6
Deferred tax assets		1.5	2.2
Trade and other receivables		1.5	1.6
		923.6	872.7
Current assets			
Inventories		27.8	19.3
Current tax assets		24.4	20.6
Trade and other receivables		154.4	117.0
Cash and bank balances		37.2	39.3
Derivative financial instruments		-	0.5
Assets held for sale		0.3	0.4
		244.1	197.1
Total assets		1,167.7	1,069.8
Current liabilities			
Trade and other payables		124.9	110.0
Current tax liabilities		42.8	34.0
Borrowings		70.6	91.7
Lease liabilities		12.3	12.9
Derivative financial instruments		0.3	-
Provisions	7	10.2	14.4
		261.1	263.0
Net current liabilities		(17.0)	(65.9)
Non-current liabilities			
Lease liabilities		53.7	51.6
Retirement benefit obligations		10.9	13.9
Deferred tax liabilities		51.0	47.0
Provisions	7	7.9	7.4
Other payables		1.1	1.5
		124.6	121.4
Total liabilities		385.7	384.4
Net assets		782.0	685.4
Equity			
Share capital		33.1	33.1
Share premium account		177.1	177.1
Own shares		(5.2)	(6.2)
Other reserves ¹		134.9	137.5
Translation reserves ¹		81.2	23.8
Retained earnings		359.8	319.4
Equity attributable to equity holders of the parent		780.9	684.7
Non-controlling interests		1.1	0.7
Total equity		782.0	685.4

¹ A reclassification of £1.0m has been made as at 31 December 2021 from translation reserves to other reserves to ensure consistency with the Statement of Changes in Equity.

The financial statements of Bodycote plc, registered number 519057, were approved by the Board of Directors and authorised for issue on 17 March 2023.

Consolidated cash flow statement

For the year ended 31 December 2022

	Note	2022 £m	2021 £m
Net cash from operating activities	8	142.9	144.3
Investing activities			
Purchases of property, plant and equipment		(57.2)	(45.1)
Proceeds on disposal of property, plant and equipment and intangible assets		4.7	11.7
Purchases of other intangibles assets		(9.8)	(6.9)
Proceeds from disposal of investment in an associate		-	1.5
Acquisition of businesses, net of cash acquired		-	(66.0)
Interest received		0.4	0.3
Net cash used in investing activities		(61.9)	(104.5)
Financing activities			
Interest paid		(6.2)	(5.5)
Dividends paid	5	(38.5)	(49.0)
Principal elements of lease payments		(13.8)	(14.4)
Drawdown of bank loans		50.7	155.5
Repayments of bank loans		(75.0)	(116.9)
Net cash used in financing activities		(82.8)	(30.3)
Net (decrease)/increase in cash and cash equivalents		(1.8)	9.5
Cash and cash equivalents at beginning of year		37.9	29.2
Effect of foreign exchange rate changes		0.1	(0.8)
Cash and cash equivalents at end of year	8	36.2	37.9

Consolidated statement of changes in equity

For the year ended 31 December 2022

	Share capital	Share premium account	Own shares	Other reserves	Translation reserves	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2021	33.1	177.1	(6.9)	132.6	37.9	306.7	680.5	0.9	681.4
Profit for the year	-	-	-	-	-	59.5	59.5	0.5	60.0
Exchange differences on translation of overseas operations	-	-	-	-	(14.1)	-	(14.1)	(0.7)	(14.8)
Movements on hedges of net investments	-	-	-	0.5	-	-	0.5	-	0.5
Movements on cash flow hedges	-	-	-	0.5	-	-	0.5	-	0.5
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	1.8	1.8	-	1.8
Total comprehensive income for the year	-	-	-	1.0	(14.1)	61.3	48.2	(0.2)	48.0
Acquired in the year/settlement of share options	-	-	0.7	(0.8)	-	0.1	-	-	-
Share-based payments	-	-	-	4.7	-	-	4.7	-	4.7
Deferred tax on share-based payment transactions	-	-	-	-	-	0.3	0.3	-	0.3
Dividends	-	-	-	-	-	(49.0)	(49.0)	-	(49.0)
31 December 2021	33.1	177.1	(6.2)	137.5	23.8	319.4	684.7	0.7	685.4
Profit for the year	-	-	-	-	-	73.7	73.7	0.6	74.3
Exchange differences on translation of overseas operations	-	-	-	-	57.4	-	57.4	(0.2)	57.2
Movements on hedges of net investments	-	-	-	(3.1)	-	-	(3.1)	-	(3.1)
Movements on cash flow hedges	-	-	-	(0.3)	-	-	(0.3)	-	(0.3)
Actuarial gains on defined benefit pension schemes net of deferred tax	-	-	-	-	-	5.6	5.6	-	5.6
Total comprehensive income for the year	-	-	-	(3.4)	57.4	79.3	133.3	0.4	133.7
Acquired in the year/settlement of share options	-	-	1.0	(0.9)	-	(0.1)	-	-	-
Share-based payments	-	-	-	1.7	-	-	1.7	-	1.7
Deferred tax on share-based payment transactions	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Dividends	-	-	-	-	-	(38.5)	(38.5)	-	(38.5)
31 December 2022	33.1	177.1	(5.2)	134.9	81.2	359.8	780.9	1.1	782.0

Included in other reserves is a capital redemption reserve of £129.8m (2021: £129.8m) and a share-based payments reserve of £6.7m (2021: £6.0m). The capital redemption reserve arose from B shares which were converted into deferred shares in 2008 and 2009, and as a result, £129.8m was transferred from retained earnings to a capital redemption reserve.

The own shares reserve represents the cost of shares in Bodycote plc purchased in the market. At 31 December 2022: 639,125 (2021: 775,962) ordinary shares of 17 3/11p each were held by the Bodycote International Employee Benefit Trust to satisfy share-based payments under the Group's incentive schemes.

Certain subsidiaries in the UK have taken an exemption to be audited.

Notes to the consolidated financial statements

Year ended 31 December 2022

1. Business and geographical segments

The Group has more than 165 facilities across the world serving a range of market sectors with various thermal processing services. The range and type of services offered is common to all market sectors.

In accordance with IFRS 8 Operating Segments, the segmentation of Group activity reflects the way the Group is managed by the chief operating decision maker, being the Group Chief Executive, who regularly reviews the operating performance of six operating segments, split between the Aerospace, Defence & Energy (ADE) and Automotive & General Industrial (AGI) business areas, as follows:

- ADE – Western Europe;
- ADE – North America;
- ADE – Emerging Markets;
- AGI – Western Europe;
- AGI – North America; and
- AGI – Emerging Markets.

The split of operating segments by geography reflects the business reporting structure of the Group.

We have also presented combined results of our two key business areas, ADE and AGI. The split being driven by customer behaviour and requirements, geography, and services provided. Customers in the ADE segment tend to operate and purchase more globally and have long supply chains, whilst customers in the AGI segment tend to purchase more locally and have shorter supply chains.

Bodycote plants do not exclusively supply services to customers of a given market sector. Allocations of plants between ADE and AGI is therefore derived by reference to the preponderance of markets served.

Group	ADE	AGI	Central costs and eliminations	Consolidated
	2022	2022	2022	2022
	£m	£m	£m	£m
Revenue				
Total revenue	312.7	430.9	-	743.6
Result				
Headline operating profit prior to share-based payments and unallocated central costs	52.1	81.1	-	133.2
Share-based payments (including social charges) ¹	(1.3)	(0.3)	-	(1.6)
Unallocated central costs	-	-	(19.4)	(19.4)
Headline operating profit/(loss)	50.8	80.8	(19.4)	112.2
Amortisation of acquired intangible assets	(6.9)	(2.4)	-	(9.3)
Acquisition costs	-	-	(0.9)	(0.9)
Operating profit/(loss) prior to exceptional items	43.9	78.4	(20.3)	102.0
Exceptional items	0.1	(0.2)	0.1	-
Segment result	44.0	78.2	(20.2)	102.0
Finance income				0.4
Finance costs				(7.1)
Profit before taxation				95.3
Taxation				(21.0)
Profit for the year				74.3

1 £1.7m (2021: £4.7m) IFRS 2 share-based payment charge in the year less £0.1m credit (2021: plus a £0.3m charge) for social security charges.

Inter-segment revenues are not material in either year.

The Group does not have any one customer that contributes more than 10% of revenue.

	Western Europe 2022 £m	North America 2022 £m	Emerging markets 2022 £m	Total ADE 2022 £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	137.1	168.6	7.0	312.7
Result				
Headline operating profit prior to share-based payments	24.5	27.4	0.2	52.1
Share-based payments (including social charges)	(0.4)	(0.9)	-	(1.3)
Headline operating profit	24.1	26.5	0.2	50.8
Amortisation of acquired intangible assets	(0.4)	(6.5)	-	(6.9)
Operating profit prior to exceptional items	23.7	20.0	0.2	43.9
Exceptional items	0.7	(0.6)	-	0.1
Segment result	24.4	19.4	0.2	44.0

	Western Europe 2022 £m	North America 2022 £m	Emerging markets 2022 £m	Total AGI 2022 £m
Automotive & General Industrial				
Revenue				
Total revenue	241.6	103.0	86.3	430.9
Result				
Headline operating profit prior to share-based payments	51.6	12.1	17.4	81.1
Share-based payments (including social charges)	(0.6)	0.2	0.1	(0.3)
Headline operating profit	51.0	12.3	17.5	80.8
Amortisation of acquired intangible assets	(0.5)	(1.5)	(0.4)	(2.4)
Operating profit prior to exceptional items	50.5	10.8	17.1	78.4
Exceptional items	0.2	(0.3)	(0.1)	(0.2)
Segment result	50.7	10.5	17.0	78.2

Group	ADE 2021 £m	AGI 2021 £m	Central costs and eliminations 2021 £m	Consolidated 2021 £m
Revenue				
Total revenue	245.6	370.2	-	615.8
Result				
Headline operating profit prior to share-based payments and unallocated central costs	45.2	72.5	-	117.7
Share-based payments (including social charges)	(1.0)	(3.0)	(1.0)	(5.0)
Unallocated central costs	-	-	(17.9)	(17.9)
Headline operating profit/(loss)	44.2	69.5	(18.9)	94.8
Amortisation of acquired intangible assets	(6.7)	(3.6)	-	(10.3)
Acquisition costs	(0.5)	-	(0.2)	(0.7)
Operating profit/(loss) prior to exceptional items	37.0	65.9	(19.1)	83.8
Exceptional items	(4.2)	(0.6)	4.8	-
Segment result	32.8	65.3	(14.3)	83.8
Finance income				0.3
Finance costs				(6.6)
Profit before taxation				77.5
Taxation				(17.5)
Profit for the year				60.0

	Western Europe 2021 £m	North America 2021 £m	Emerging markets 2021 £m	Total ADE 2021 £m
Aerospace, Defence & Energy				
Revenue				
Total revenue	105.3	136.0	4.3	245.6
Result				
Headline operating profit prior to share-based payments	21.7	23.3	0.2	45.2
Share-based payments (including social charges)	(0.4)	(0.6)	-	(1.0)
Headline operating profit	21.3	22.7	0.2	44.2
Amortisation of acquired intangible assets	-	(6.7)	-	(6.7)
Acquisition costs	(0.5)	-	-	(0.5)
Operating profit prior to exceptional items	20.8	16.0	0.2	37.0
Exceptional items	(1.7)	(2.5)	-	(4.2)
Segment result	19.1	13.5	0.2	32.8

	Western Europe 2021 £m	North America 2021 £m	Emerging markets 2021 £m	Total AGI 2021 £m
Automotive & General Industrial				
Revenue				
Total revenue	217.0	85.3	67.9	370.2
Result				
Headline operating profit prior to share-based payments	47.8	7.9	16.8	72.5
Share-based payments (including social charges)	(1.8)	(0.5)	(0.7)	(3.0)
Headline operating profit	46.0	7.4	16.1	69.5
Amortisation of acquired intangible assets	(0.5)	(2.7)	(0.4)	(3.6)
Operating profit prior to exceptional items	45.5	4.7	15.7	65.9
Exceptional items	(0.3)	(0.1)	(0.2)	(0.6)
Segment result	45.2	4.6	15.5	65.3

Other information

Group	ADE 2022 £m	AGI 2022 £m	Central costs and eliminations 2022 £m	Consolidated 2022 £m
Gross capital additions	30.8	38.2	10.6	79.6
Depreciation and amortisation	34.1	47.0	3.2	84.3
Balance sheet				
Segment assets	526.9	569.8	71.0	1,167.7
Segment liabilities	(96.0)	(134.9)	(154.8)	(385.7)
Segment net assets	430.9	434.9	(83.8)	782.0

Aerospace, Defence & Energy	Western Europe 2022 £m	North America 2022 £m	Emerging markets 2022 £m	Total ADE 2022 £m
Gross capital additions	10.2	20.4	0.2	30.8
Depreciation and amortisation	12.5	20.9	0.7	34.1
Balance sheet				
Segment assets	183.1	337.7	6.1	526.9
Segment liabilities	(51.6)	(43.5)	(0.9)	(96.0)
Segment net assets	131.5	294.2	5.2	430.9

	Western Europe	North America	Emerging markets	Total AGI
	2022	2022	2022	2022
	£m	£m	£m	£m
Automotive & General Industrial				
Gross capital additions	20.1	10.0	8.1	38.2
Depreciation and amortisation	22.5	13.2	11.3	47.0
Balance sheet				
Segment assets	248.4	177.4	144.0	569.8
Segment liabilities	(79.4)	(21.2)	(34.3)	(134.9)
Segment net assets	169.0	156.2	109.7	434.9

	ADE	AGI	Central costs and eliminations	Consolidated
	2021	2021	2021	2021
	£m	£m	£m	£m
Group				
Gross capital additions	14.5	38.5	7.5	60.5
Depreciation and amortisation	33.8	47.7	2.8	84.3
Balance sheet				
Segment assets	480.1	527.4	62.3	1,069.8
Segment liabilities	(91.3)	(133.3)	(159.8)	(384.4)
Segment net assets	388.8	394.1	(97.5)	685.4

	Western Europe	North America	Emerging markets	Total ADE
	2021	2021	2021	2021
	£m	£m	£m	£m
Aerospace, Defence & Energy				
Gross capital additions	6.0	8.4	0.1	14.5
Depreciation and amortisation	12.7	20.5	0.6	33.8
Balance sheet				
Segment assets	170.3	304.7	5.1	480.1
Segment liabilities	(46.2)	(44.1)	(1.0)	(91.3)
Segment net assets	124.1	260.6	4.1	388.8

	Western Europe	North America	Emerging markets	Total AGI
	2021	2021	2021	2021
	£m	£m	£m	£m
Automotive & General Industrial				
Gross capital additions	20.3	10.5	7.7	38.5
Depreciation and amortisation	23.5	13.5	10.7	47.7
Balance sheet				
Segment assets	232.0	167.4	128.0	527.4
Segment liabilities	(79.0)	(24.3)	(30.0)	(133.3)
Segment net assets	153.0	143.1	98.0	394.1

Geographical information

The Group's revenue from external customers and information about its assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by country are detailed below:

	Revenue from external customers		Non-current assets	
	2022	2021	2022	2021
	£m	£m	£m	£m
USA	258.2	210.9	450.6	413.4
France	90.8	80.8	64.4	63.4
Germany	79.0	71.1	71.3	68.1
UK	55.6	45.2	88.1	79.9
Sweden	48.1	40.1	35.2	36.6
Netherlands	32.8	27.8	23.1	23.1
Others	179.1	139.9	187.9	184.4
	743.6	615.8	920.6	868.9

2. Operating profit

	2022	2021
	£m	£m
Revenue	743.6	615.8
Cost of sales	(473.9)	(379.8)
Gross profit	269.7	236.0
Other operating income	9.2	3.8
Distribution costs	(21.1)	(17.4)
Administration expenses	(151.2)	(138.6)
Other operating expenses	(4.5)	(1.2)
Net impairment (losses)/gains on financial assets	(0.1)	1.2
Operating profit prior to exceptional items	102.0	83.8
Exceptional items (see note 3)	-	-
Operating profit	102.0	83.8

Operating profit for the year has been arrived at after charging/(crediting):

	2022	2021
	£m	£m
Net foreign exchange loss/(gain)	0.1	(0.2)
Inventory expensed	69.2	48.4
Depreciation of property, plant and equipment	60.2	58.0
Depreciation on mothballed sites due to restructuring recognised in exceptional items	-	0.6
Depreciation of right-of-use assets	13.0	13.6
Amortisation of other intangible assets	11.1	12.1
Gain on disposal of property, plant and equipment recognised in operating profit	(1.7)	-
Loss/(profit) on disposal of property, plant and equipment recognised in exceptional items (see note 3)	0.1	(4.8)
Gain on disposal of right-of-use assets	(0.1)	-
Employee costs	276.5	252.5
Pension scheme administration expenses	0.6	0.5
Utility costs	95.6	57.2
Government assistance support received ¹	(2.6)	(1.5)
Acquisition costs	0.9	0.7
Impairment loss/(gain) on trade receivables	0.1	(1.2)
Impairment (reversal)/charges - recognised in exceptional items (see note 3)	(0.1)	5.5
Impairment of property, plant and equipment and other assets - recognised in operating profit	4.8	-
Share of profit of associate undertaking up to disposal	-	(0.1)
Loss on sale of associate	-	0.4

¹ Government grants consist of support towards utility expenditure of £1.7m (2021: £nil), R&D support of £0.7m (2021: £nil) and £0.2m (2021: £1.5m) in respect of COVID-19 and other support programmes.

The analysis of auditors' remuneration on a worldwide basis is as follows:

	2022	2021
	£m	£m
Fees payable to the auditor for the audit of the annual accounts	0.9	0.8
Fees payable to the auditor and its associates for other services:		
The audit of the Group's subsidiaries	1.2	1.4
Total audit fees	2.1	2.2
Audit related assurance services ¹	0.1	0.1
Other non-audit fees ²	-	0.1
Total fees payable to the auditor	2.2	2.4

1 This includes £0.1m for the review of the half year report (2021: £0.1m for the review of the half year report).

2 2021 includes £0.1m for a mandatory assurance requirement by the Dutch government concerning COVID-19 assistance (NOW), required as part of the programme conditions.

The audit fees disclosed for 2022 include £0.1m of fees in connection with the 2021 audit. The audit fees disclosed for 2021 include £0.1m of fees in connection with the 2020 audit.

3. Exceptional items

	2022	2021
	£m	£m
Severance and redundancy provision release	(0.8)	(2.7)
Net impairment (reversal)/charges	(0.1)	5.5
Site closure costs	1.0	1.9
Losses/(gains) on sales of property, plant and equipment recognised in exceptional items	0.1	(4.8)
Environmental provisions (credit)/charge - see note 7	(0.2)	0.1
Total exceptional items ¹	-	-

1 Non exceptional costs relating to severance and redundancy, impairment charges/reversals, site closure costs and environmental provisions are booked to other operating expenses. Gains and losses on sales of property, plant and equipment are booked to other operating income.

In 2020, the Group announced an organisation restructuring initiative which was driven by a combination of both macroeconomic uncertainties and longer term automobile and aerospace market structural shifts. A number of plants were closed as a result of these restructuring activities. The related costs were recorded as exceptional items in line with the Group's accounting policy for exceptional items.

At 31 December 2022, management performed a detailed review of the remaining restructuring activities in order to determine the best estimate of future expenditure required to settle the present obligation, resulting in a net overall charge to exceptional items of £nil.

At 31 December 2022, £3.0m (2021: £10.2m) was held as exceptional provisions. Refer to note 7 for more information.

4. Taxation charge

	2022	2021
	£m	£m
Current taxation - charge for the year	21.3	18.9
Current taxation - adjustments in respect of previous years	(0.6)	(5.9)
Deferred tax	0.3	4.5
Total taxation charge	21.0	17.5

The Group uses a weighted average country tax rate rather than the UK tax rate for the reconciliation of the charge for the year to the profit before taxation per the consolidated income statement. The Group operates in several jurisdictions, many of which have a tax rate in excess of the UK tax rate. As such, a weighted average country tax rate is believed to provide the most meaningful information to the users of the financial statements. The appropriate tax rate for this comparison in 2022 is 24.8% (2021: 24.7%). The effect of changes in statutory tax rates reflects the impact on deferred

tax balances of the increase in the future UK tax rate from 19.0% to 25.0% which will take effect from 1 April 2023 as per the Finance Act 2021. Consequently, the deferred tax balances on the consolidated balance sheet relating to the UK have been measured using these revised rates.

During 2021, the OECD published a framework for the introduction of a global minimum effective tax rate of 15%, applicable to large multinational groups. On 20 July 2022, HM Treasury released draft legislation to implement these 'Pillar II' rules with effect for years beginning on or after 31 December 2023. The Group is reviewing these draft rules to assess any potential impacts.

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2022 £m	2021 £m
Profit before taxation	95.3	77.5
Tax at the weighted average country tax rate of 24.8% (2021: 24.7%)	23.6	19.1
Tax effect of expenses not deductible in determining taxable profit ¹	1.7	2.3
Impact of recognition or derecognition of deferred tax balances	(2.0)	(0.9)
Tax effect of other adjustments in respect of previous years:		
Current tax ²	(0.6)	(5.9)
Deferred tax ²	(3.4)	0.1
Effect of financing activities between jurisdictions ³	(0.6)	1.3
Impact of trade and minimum corporate taxes	0.5	0.6
Effect of changes in statutory tax rates on deferred tax assets and liabilities	0.9	0.2
Other tax risk provision movements ⁴	0.9	0.7
Tax expense for the year	21.0	17.5

Tax on items taken directly to equity is a charge of £0.5m (2021: credit of £0.3m).

- 1 Those costs in various jurisdictions that are not deductible in calculating taxable profits.
- 2 2022 and 2021 adjustments in current and deferred tax in respect of previous years relate mainly to changes in assumptions and outcomes in UK and overseas tax positions.
- 3 The Group is externally financed by a mix of cash flows from operations and short-term borrowings. Internally, operating subsidiaries are predominantly financed via intercompany loans. The effect is net of provisions based on management's estimation of tax risk relating to the potential disallowance of interest. £9.1m of interest deductions were restricted in the US in 2022 (2021: £5.1m).
- 4 Includes provisions for local tax risks and non-financing cross-border transactions.

As part of the calculation of the tax charge, the Group recognises a number of tax risk provisions in respect of ongoing tax enquiries and in recognition of the multinational tax environment that Bodycote operates in where the nature of the tax positions that are taken is often complex and subject to change. Tax provisions totalling £28.1m were recognised at 31 December 2022 (2021: £24.0m), of which £5.3m (2021: £1.8m) are expected to crystallise within 12 months. The provisions are based on an assessment of a range of possible outcomes to determine reasonable estimates of the consequences of tax authority audits in the various tax jurisdictions in which the Group operates. The material provisions relate to the financing of the Group's operations where management's judgement is exercised to determine the quantum of the tax risk provisions based on an understanding of the appropriate local tax legislation, taking into consideration the differences of interpretation that can arise on a wide variety of issues including the nature of ongoing tax audits and the experience from earlier enquiries, and determining whether any possible liability is probable. The Group's provisions vary in quantum from £0.4m to £8.9m each.

5. Dividends

	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2020 of 6.0p per share	-	11.4
Final dividend for the year ended 31 December 2020 of 13.4p per share	-	25.7
Interim dividend for the year ended 31 December 2021 of 6.2p per share	-	11.9
Final dividend for the year ended 31 December 2021 of 13.8p per share	26.3	-
Interim dividend for the year ended 31 December 2022 of 6.4p per share	12.2	-
	38.5	49.0

Proposed final dividend for the year ended 31 December 2022 of 14.9p per share	28.4	-
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The Board approved the payment of an interim dividend for 2021 of 6.2p on 27 July 2021 to those shareholders on the register of Bodycote plc on 8 October 2021 and a final ordinary dividend for 2021 of 13.8p to shareholders on the register of Bodycote plc on 22 April 2022. The 2021 interim dividend was paid on 5 November 2021 and the final ordinary dividend on 1 June 2022.

The Board approved the payment of an interim dividend for 2022 of 6.4p on 29 July 2022 to those shareholders on the register of Bodycote plc on 7 October 2022 and has proposed a final ordinary dividend of 14.9p per share to be paid on 2 June 2023 to shareholders on the register at close of business at 21 April 2023 subject to approval by shareholders at the Annual General Meeting. The 2022 interim dividend was paid on 4 November 2022.

As the proposed final dividend is subject to shareholder approval in 2023, it is not included as a liability in these financial statements.

The dividends are waived on shares held by the Bodycote International Employee Benefit Trust.

6. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2022 £m	2021 £m
Earnings		
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	73.7	59.5

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	190,779,615	190,651,774
Effect of dilutive potential ordinary shares:		
Shares subject to performance conditions ¹	384,848	79,678
Shares subject to vesting conditions	191,502	192,117
Weighted average number of ordinary shares for the purpose of diluted earnings per share	191,355,965	190,923,569

	Pence	Pence
Earnings per share:		
Basic	38.6	31.2
Diluted ¹	38.5	31.2

	2022 £m	2021 £m
Headline earnings		
Net profit attributable to equity holders of the parent	73.7	59.5
Add back:		
Amortisation of acquired intangible assets (net of tax)	7.0	7.8
Acquisition costs (net of tax)	0.7	1.0
Headline earnings	81.4	68.3

	Pence	Pence
Headline earnings per share:		
Basic	42.7	35.8
Diluted ¹	42.5	35.8

¹ As at 31 December 2022, in accordance with IAS 33, the related performance conditions for most open plans have not been met resulting in 0.2p dilution of earnings per share (2021: nil).

7. Provisions

	Restructuring £m	Restructuring environmental £m	Environmental £m	Legal and operational £m	Total £m
At 1 January 2022	9.0	3.6	6.0	3.2	21.8
Increase in provision	1.6	0.2	3.1	4.1	9.0
Release of provision	(2.9)	(0.4)	(0.1)	(0.1)	(3.5)
Utilisation of provision	(6.6)	(1.3)	(0.7)	(2.1)	(10.7)
Exchange difference	0.5	0.3	0.6	0.1	1.5
At 31 December 2022	1.6	2.4	8.9	5.2	18.1
Included in current liabilities					10.2
Included in non-current liabilities					7.9
					18.1

Included within the above balances are £1.0m of environmental restructuring provisions, £8.9m of environmental provisions and £5.2m of legal provisions which do not relate to the Group's 2020 exceptional restructuring programme.

Exceptional restructuring

At 31 December 2022, £1.6m (2021: £7.8m) of restructuring provisions and £1.4m (2021: £2.4m) of restructuring environmental provisions remain, relating to restructuring initiatives across North America and Europe announced in 2020. Refer to the 2020 Annual Report for more information.

In the year ended 31 December 2022, £7.6m of the brought forward exceptional restructuring provisions was utilised in order to carry out planned activities relating to employee severance and redundancy (£2.9m), costs associated with closing plants (£3.7m) and the remediation of environmental issues (£1.0m).

As at 31 December 2022, management has performed a detailed review of restructuring activities in order to determine the best estimate of future expenditure required to settle the present obligations and the related timing. As a result of this assessment, the exceptional restructuring provisions were adjusted as follows:

	Restructuring £m	Restructuring environmental £m	Total £m
Increase in provision	1.6	0.2	1.8
Release of provision	(1.4)	(0.4)	(1.8)
Net charge/(release)	0.2	(0.2)	-

These increases and releases to provisions have been charged/credited to exceptional items in the consolidated income statement.

Cash outflows in relation to exceptional restructuring initiatives were £7.4m (2021: £13.0m). The majority of the remaining cash outflows on these activities are expected to occur in 2023 with certain environmental remediation activities expected to occur until 2026.

Of the remaining exceptional restructuring provision of £3.0m at 31 December 2022, £0.2m related to employee severance and redundancy, £1.4m for costs associated with closing plants and £1.4m related to environmental issues.

The Group provides for the costs of environmental remediation if there is a probable outflow of economic resources that has been identified at the time of plant closure, as part of acquisition due diligence or in other circumstances where remediation by the Group is required. This provision is reviewed annually to determine the best estimate of expenditure required to settle the identified obligations and is separated into restructuring environmental and environmental provisions to identify separately those provisions relating to the restructuring programme from those arising in the

ordinary course of business. The majority of cash outflows in respect of these liabilities are expected to occur within five years.

The Group remains exposed to contingent liabilities in respect of environmental remediation liabilities. In particular, the Group could be subjected to regulatory or legislative requirements to remediate sites in the future. However, it is not possible at this time to determine whether and to what extent any liabilities exist, other than for those recognised above. Therefore no provision is recognised in relation to these items.

8. Notes to the cash flow statement

	2022	2021
	£m	£m
Profit for the year	74.3	60.0
Adjustments for:		
Finance income	(0.4)	(0.3)
Finance costs	7.1	6.6
Taxation charge	21.0	17.5
Operating profit	102.0	83.8
Adjustments for:		
Depreciation of property, plant and equipment recognised in operating profit	60.2	58.0
Depreciation on mothballed sites due to restructuring recognised in exceptional items	-	0.6
Depreciation of right-of-use assets	13.0	13.6
Amortisation of other intangible assets	11.1	12.1
Profit on disposal of property, plant and equipment recognised in operating profit	(1.7)	-
Loss/(profit) on disposal of property, plant and equipment recognised in exceptional items	0.1	(4.8)
Profit on disposal of right-of-use assets	(0.1)	-
Share-based payments	1.7	4.7
Income from associate prior to disposal	-	(0.1)
Loss on disposal of associate	-	0.4
Impairment (reversal)/charges of property, plant and equipment and other assets recognised in exceptional items	(0.1)	5.5
Impairment of property, plant and equipment and other assets recognised in operating profit	4.8	-
EBITDA (See APM definition below)	191.0	173.8
Increase in inventories	(8.5)	(2.7)
Increase in receivables	(37.4)	(1.6)
Increase in payables	12.6	1.9
Decrease in provisions	(3.7)	(17.6)
Cash generated by operations	154.0	153.8
Income taxes paid	(15.4)	(9.5)
Settlement of derivatives	0.8	-
Refund of post settlement pension surplus	1.8	-
Net exchange differences	1.7	-
Net cash from operating activities	142.9	144.3
	2022	2021
	£m	£m
Cash and cash equivalents comprise:		
Cash and bank balances	37.2	39.3
Bank overdrafts (included in borrowings)	(1.0)	(1.4)
	36.2	37.9

The cash and cash equivalents disclosed above in the statement of cash flows includes £0.8m held in escrow relating to environmental provisions in the USA and £1.8m held in the USA related to the refund of a pension surplus. The Group intends to use this refund of pension surplus cash to fund future pension contributions for its USA employees, otherwise the full amount will become subject to regulatory restrictions in the USA.

9. Basis of preparation

The financial statements of the Group, from which these consolidated financial statements are derived, have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under these standards.

The Group has adopted Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee of the IASB (IFRS IC). Individual standards and interpretations have to be adopted by the UK Endorsement Board (UKEB) before being applied in the UK. International Financial Reporting Standards are subject to ongoing amendment by the IASB and subsequent endorsement by the UKEB and are therefore subject to change.

The financial statements have been prepared on the historical cost basis, except for items that are required by IFRS to be measured at fair value, principally certain financial instruments measured at fair value, and retirement benefit assets. Historical cost is generally based on the fair value of the consideration given up in exchange for the assets.

In preparing the consolidated financial statements, the Directors have considered the impact of climate change particularly in the context of the disclosures included in the Sustainability section of the Strategic Report. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the conclusion that climate change is not expected to have a significant impact on the Group's cashflows, including those considered in the going concern and viability assessments.

10. Non-statutory financial statements

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2021 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s.498 (2) or (3) of the Companies Act 2006.

Alternative performance measures - APMs (unaudited)

Bodycote uses various APMs, in addition to those reported under IFRS, as management consider these measures enable users of the financial statements to assess the headline trading performance of the business. These APMs of financial performance, position or cash flows are not defined or specified according to International Financial Reporting Standards (IFRS) and are defined below and, where relevant, are reconciled to IFRS measures. APMs are prepared on a consistent basis for all periods presented in this report.

The APMs used include headline operating profit, headline operating margin, headline profit before taxation, EBITDA, headline EBITDA, organic revenue, headline tax charge, headline tax rate, headline earnings per share (EPS), headline operating cash flow, free cash flow, headline operating cash conversion, free cash flow conversion, net (debt)/cash, net (debt)/cash plus lease liabilities and Return On Capital Employed (ROCE). These measures reflect the headline trading performance of the business as they exclude certain non-operational items, exceptional items, acquisition costs and the amortisation of acquired intangible assets. The Group also uses revenue growth percentages adjusted for the impact of foreign exchange movements, where appropriate, to better represent the trading performance of the Group. The measures described above are also used in the targeting process for executive and management annual bonuses (headline operating profit and headline operating cash flow) with headline EPS and ROCE also used in executive share schemes.

The constant exchange rate comparison uses the current year reported segmental information, stated in the relevant functional currency, and translates the results into its presentational currency using the prior year's monthly exchange rates. Expansionary capital expenditure is defined as capital expenditure invested to grow the Group's business.

Headline operating profit

	2022	2021
	£m	£m
Operating profit	102.0	83.8
Add back:		
Amortisation of acquired intangibles	9.3	10.3
Acquisition costs	0.9	0.7
Exceptional items	-	-
Headline operating profit	112.2	94.8

Headline operating margin

	2022	2021
	£m	£m
Headline operating profit	112.2	94.8
Revenue	743.6	615.8
Headline operating margin	15.1%	15.4%

Headline profit before taxation

	2022	2021
	£m	£m
Profit before taxation	95.3	77.5
Add back:		
Amortisation of acquired intangibles	9.3	10.3
Acquisition costs	0.9	0.7
Exceptional items	-	-
Headline profit before taxation	105.5	88.5

EBITDA and Headline EBITDA (Earnings Before Interest, Taxation, Depreciation, and Amortisation)

	2022	2021
	£m	£m
Operating profit	102.0	83.8
Depreciation and amortisation	84.3	83.7
Depreciation on mothballed sites due to restructuring recognised in exceptional items	-	0.6
Impairment (reversal)/charge of property, plant and equipment and other assets - recognised in exceptional items	(0.1)	5.5
Impairment of property, plant and equipment and other assets - recognised in operating profit	4.8	-
Profit on disposal of property, plant and equipment - recognised in operating profit	(1.7)	-
Profit on disposal of right-of-use assets - recognised in operating profit	(0.1)	-
Loss/(profit) on disposal of property, plant and equipment - recognised in exceptional items	0.1	(4.8)
Share-based payments	1.7	4.7
Income from associate prior to disposal	-	(0.1)
Loss on disposal of associate	-	0.4
EBITDA	191.0	173.8
Acquisition costs	0.9	0.7
Exceptional items, excluding impairments	(0.1)	(1.3)
Share-based payments	(1.7)	(4.7)
Headline EBITDA	190.1	168.5
Headline EBITDA Margin	25.6%	27.4%

Organic revenue

Excludes revenues from acquisitions in the current and comparative period to provide a like-for-like comparison, reconciled in the table below:

	2022	2021
	£m	£m
Total revenue	743.6	615.8
Less adjustments for revenue from acquisitions completed in the current or prior year	(8.6)	(32.8)
Total organic revenue	735.0	583.0

Headline operating cash flow

	2022	2021
	£m	£m
Headline EBITDA	190.1	168.5
Less:		
Net maintenance capital expenditure	(52.2)	(43.1)
Net working capital movement	(25.3)	(3.4)
Headline operating cash flow	112.6	122.0

Free cash flow

	2022	2021
	£m	£m
Headline operating cash flow	112.6	122.0
Less:		
Restructuring cash flows	(7.4)	(2.3)
Income taxes paid	(15.4)	(9.5)
Interest paid	(5.8)	(5.2)
Free cash flow	84.0	105.0

Headline operating cash conversion

	2022	2021
	£m	£m
Headline operating cash flow	112.6	122.0
Headline operating profit	112.2	94.8
Headline operating cash conversion	100.4%	128.7%

Free cash flow conversion

	2022	2021
	£m	£m
Free cash flow	84.0	105.0
Headline operating profit	112.2	94.8
Free cash flow conversion	74.9%	110.8%

Headline tax charge

	2022	2021
	£m	£m
Tax charge	21.0	17.5
Tax on amortisation of acquired intangibles	2.3	2.5
Tax charge/(credit) on exceptional items and acquisition costs	0.2	(0.3)
Headline tax charge	23.5	19.7

Headline tax rate

	2022	2021
	£m	£m
Headline tax charge	23.5	19.7
Headline profit before taxation	105.5	88.5
Headline tax rate	22.3%	22.3%

Headline earnings per share

A detailed reconciliation is provided in note 6 of these consolidated financial statements.

Net debt and net debt plus lease liabilities

	2022 £m	2021 £m
Cash and bank balances	37.2	39.3
Bank overdrafts (included in borrowings)	(1.0)	(1.4)
Derivative financial instruments	-	0.5
Bank loans (included in borrowings)	(69.6)	(90.3)
Net debt	(33.4)	(51.9)
Lease liabilities	(66.0)	(64.5)
Net debt plus lease liabilities	(99.4)	(116.4)

Return on capital employed (%)

	Year to 31 December 2022			
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Headline operating profit	50.8	80.8	(19.4)	112.2
Average capital employed ¹	426.4	442.8	(27.6)	841.5
Return on capital employed (%)	11.9%	18.2%	n/a	13.3%

	Year to 31 December 2021			
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Headline operating profit	44.2	69.5	(18.9)	94.8
Average capital employed ¹	407.0	436.6	(53.6)	789.9
Return on capital employed (%)	10.8%	15.9%	n/a	12.0%

¹ Average capital employed is defined as the average opening and closing net assets adjusted for net debt plus lease liabilities.

Revenue and headline operating profit at constant exchange

Reconciled to revenue and headline operating profit in the table below:

	Year to 31 December 2022			
	ADE £m	AGI £m	Central cost and eliminations £m	Consolidated £m
Revenue	312.7	430.9	-	743.6
Constant exchange rates adjustment	(17.5)	(4.0)	-	(21.5)
Revenue at constant currency	295.2	426.9	-	722.1
Headline operating profit	50.8	80.8	(19.4)	112.2
Constant exchange rates adjustment	(2.4)	0.8	1.9	0.3
Headline operating profit at constant currency	48.4	81.6	(17.5)	112.5